

Urge Frank to Eliminate Language Requiring Study Prior to Implementation

Washington, DC - Congressman Maurice Hinchey (D-NY) was this week joined by Reps. Conyers, DeFazio, Garamendi, Kaptur and Linda Sánchez in support of a strong Volcker Rule. The group called on House Financial Services Committee Chairman Barney Frank (D-MA) to eliminate language requiring a study of the rule prior to implementation. The Volcker Rule would prohibit commercial banks and bank holding companies from engaging in proprietary trading and owning or investing in a hedge fund or private equity fund.

In their letter to Chairman Frank, the six House members led by Hinchey expressed support for the Senate's inclusion of the Volcker Rule in its version of the Wall Street reform measure. They also noted, however, that the provision is weakened by a requirement for a study on the provision's impact that will create needless delay and could lead to weak implementation.

"The repeal of Glass Steagall, a law which separated commercial and investment banking, created a free-for-all on Wall Street, allowing commercial banks to utilize depositors' money to engage in risky and over-leveraged trading," said Hinchey. "Because these investments were backed up by FDIC, the federal government was insuring and essentially encouraging the use of dangerous financial instruments. A strong Volcker Rule will stop commercial banks from using depositors' money to engage in these types of risky investments. It is essential that we do not put the decision to implement the Rule in the hands of the same regulatory institutions that have too often placed the financial interests of big banks over the financial security of the American people. That's why I've asked Chairman Frank to work to eliminate the study language in conference."

In December 2009, Hinchey offered an amendment to the Wall Street Reform and Consumer Protection Act that would have restored the Glass-Steagall Act as part of the broader financial regulatory reform legislation. That amendment was blocked from coming up for a vote before the full House. Following the amendment's rejection, Hinchey introduced the Glass-Steagall Restoration Act, which would statutorily require banking giants to decide whether they want to serve as a commercial bank or an investment bank and require them to cease activities in one of those areas within one year of the bill's enactment. Throughout the 1990's, the banking lobby spent millions of dollars on lobbying efforts to remove this important wall and was successful in overturning the Glass Steagall Act through the passage of the Gramm Leach Bliley Act of 1999, which Hinchey voted against.

"This deregulation of the banking sector was a tragic mistake for our country," said Hinchey. "It is critical that these important safeguards be put back in place by including a strong Volcker Rule in this historic financial regulatory reform bill. Just as the Glass Steagall Act put in place important reforms that helped stabilize the banking sector following the Great Depression, the

Volcker Rule takes an important step in limiting bank depositors exposure to Wall Street's risky proprietary trading -- an action solely designed to line the pockets of investment bankers."

Hinchey is also the author of the Too Big to Fail, Too Big to Exist Act, which would require the Secretary of the Treasury to dismantle any U.S. financial institution deemed to be so big that its potential collapse would undermine the entire U.S. economy. U.S. Senator Bernie Sanders (I-VT) is the author of that legislation in the Senate.

The full text of the letter to Chairman Frank is appended below.

June 09, 2010

The Honorable Barney Frank
Chairman
House Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank,

As you prepare to go to conference on legislation to reform Wall Street, we respectfully request that you support efforts to strengthen provisions to ban proprietary trading by banks and bank holding companies, commonly known as the "Volcker Rule," by eliminating the current language requiring a study prior to the Volcker Rule's implementation.

As a response to the Great Depression, Congress passed the Banking Act of 1933, commonly known as the Glass Steagall Act. This historic legislation prohibited banks from having both commercial and investment banking operations. Throughout the 1990's, the banking lobby spent millions of dollars on lobbying efforts to remove this important wall and was successful in

overturning Glass Steagall through the passage of the Gramm Leach Bliley Act of 1999. It is not surprising that since 1999 we have seen the creation of the too-big-to-fail megabanks that brought the economy to the brink of collapse in 2008. This deregulation of the banking sector was a tragic mistake for this country and it is critical that these important safeguards be put back in place by including the Volcker Rule in this historic financial regulatory reform bill. Just as the Glass Steagall Act put in place important reforms that helped stabilize the banking sector following the Great Depression, the Volcker Rule takes an important step in limiting bank depositors exposure to Wall Street's risky proprietary trading -- an action solely designed to line the pockets of investment bankers.

We applaud the Senate's addition of this important measure in their regulatory reform bill; however, there remains serious flaws in the current language. Allowing the Financial Stability Oversight Council discretion to implement the Volcker Rule, after reviewing a study on its impact, will create needless delay and will likely result in a significantly watered down version of the rule. For these reasons, it is critical that the Volcker Rule be implemented without delay.

We strongly urge you to protect banking deposits from the whims of Wall Street by working with your colleagues to include a Volcker Rule in the final regulatory reform bill without the unnecessary delay of a study.

Sincerely,

Maurice D. Hinchey
John Conyers
Peter DeFazio
Linda Sánchez
John Garamendi
Marcy Kaptur